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U.S. Farm Sector Weathers Storm, Builds Strength

GATT and Farm Trade page 14

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PERSPECTIVES

FARM PRODUCTION IN 1990 WILL BE UP SLIGHTLY, according to preliminary estimates by USDA's Economic Research Service. The estimates were subject to revision before the Department's annual Agricultural Outlook Conference held late in November, but actions already taken by USDA, such as acreage set-aside requirements for some program commodities, and by farm producers, such as the planting of the winter wheat crop, suggest some gains over 1989. Winter wheat plantings are up by 4 million acres and all classes of wheats are expected to be improved. However, while forecasts usually run in straight lines, history often generates bends and curves—like unforeseen droughts back-to-back.

Net cash farm income from all crops is expected to be in the range of $52 billion to $57 billion in fiscal 1990, the fourth straight year that it has topped $50 billion. Direct government payments are expected to be down, and farm-property depreciation will rise. However, these factors will be offset by higher commodity receipts, holding net farm income to $44 billion to $49 billion, nearly equal to the estimated $48 billion in fiscal 1989. Net farm income includes net cash farm income plus noncash revenues such as commodities consumed on the farm, imputed rental value of dwellings, and changes in inventory. (The use and significance of the "farm income" measurements are more fully discussed in the first article of this issue.)

Crop receipts could be at a record high, but soybean production probably will be down. Plantings of soybeans are expected to be lower in 1990, because foreign soybean production in the Southern Hemisphere is reported to be adequate to keep market prices lower than many U.S. growers find satisfactory. Although beef production is stable, cattle receipts are expected to be up slightly, due to a 1 percent to 3 percent increase in prices. But competition from higher poultry production should keep the price of beef competitive. Profit margins may be preserved by the impact of lower feed prices. Like wheat, corn production is expected to be up.

Farm equity is expected to improve again. From the mid-1980's, when the value of farmland plummeted, farm equity by the end of fiscal 1990 will have grown by an estimated $120 billion to about $740 billion. Most of the gain in equity is expected from land appreciation. In spite of the recent runup in land prices, land still remains "affordable" for about 40 percent to 50 percent of commercial farmers.

The U.S. farm economy appears to be in a "steady state," says ERS economist Greg Hanson, who supplied the data on income. He describes the current state of the agricultural economy as one of "strong fundamentals" with farmers holding onto stringent cost controls and keeping a steady eye on the export market.

Hanson describes the agricultural trends in the 1980's as a cost squeeze (1980-83), followed by debt restructuring and income rebuilding (1984-86) and then the current steady state. And a trend could be developing toward the "three-income" farm family with two breadwinners who derive at least part of their gross income from nonfarm activities, in addition to the income from the farm operation. Given tighter limits on government payments and the declining trend in crop target prices, some high-output crop farms are diversifying into broader crop-livestock mixes. With improved livestock returns since 1987, diversified operations large enough to achieve economies of scale have been quite profitable. An obvious example of what Hanson calls a "diversified superfarm" is one that produces corn, soybeans, hogs, and cattle in high volume.

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AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

U.S. Farm Sector Weathers Storm, Builds Strength *by Jack Harrison* 4

Producers in 1988 did surprisingly well in the wake of a severe drought that depressed output over much of the country. The annual USDA Farm Costs and Returns Survey found a decline in debt in the total farm sector. The next survey, covering 1989, will be taken soon.

Behind the GATT Drive to Broaden Agricultural Trade *by Al Veerhoff* 14

The United States is urging its trading partners to join in removing all subsidies and import quotas that distort trade in farm goods. USDA analysts have been studying the history and the effects of the trading barriers. The possible outcome of the subsidy reductions is discussed in accompanying articles.

Freer Trade Seen as Boost to Wheat Producers *by Doug Martinez* 16

American growers could capture a larger share of the world market if trade restraints are lifted, says an ERS economist. U.S. taxpayers would benefit.

Sugar Producers, Users Could Gain a Fairer Marketplace *by Judith Foulke* 16

The most volatile of commodity markets, sugar is intricately protected by many nations, including sugar producing ones. Removing the barriers will be a major undertaking, says an ERS economist.

New Status for Hungary *by Judith Foulke* 22

When Hungary eased travel restrictions for its citizens, the United States almost immediately granted the country permanent Most Favored Nation status. It will clear the way for long-term sales of U.S. farm goods.

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Dialing Up Economic Information 12

This handy guide provides telephone numbers of key specialists in USDA's Economic Research Service and National Agricultural Statistics Service. The listings are arranged by subject to help you find the right person to answer questions about crops, livestock, farmland prices, trade, and other topics. Pull out and save this guide.

U.S. Farm Sector Weathers Storm, Builds Strength

The U.S. farm sector demonstrated in 1988 that it has the vigor to weather a powerful storm. By some measures, its financial condition improved during the year, despite the worst drought in half a century.

The diversity of agriculture in this country was thus reemphasized.

Some parts of the nation escaped the bad weather. Many of the farmers hit hard by the drought were helped by government disaster payments. It was actually a better than usual year for some commodities, in part because the drought resulted in higher prices—a boon for those who had a crop.

"Overall, farm financial performance continued to improve in 1988, as it had in 1986 and 1987," says economist Mitch Morehart of USDA's Economic Research Service.

Farm receipts were up nearly 9 percent in 1988 to a total of $151.5 billion. Gross cash income increased 6 percent and net cash income 4 percent while cash expenses rose 7 percent and direct government payments fell 13 percent to $14.5 billion. This included $3.4 billion in drought relief that was paid in 1988. (Another half-billion dollars was distributed later.)

Farm equity (net worth) increased by 8 percent to $610 billion as of the end of 1988. Farm debt was down 3 percent to $138.4 billion and the total value of farm real estate rose 5 percent to $546 billion.

USDA's annual Farm Costs and Returns Survey provides many details about the farm financial situation. ERS economists analyze the data each year and publish their findings in various reports. The survey results are broken down by region of the country, production specialty, economic class of farm, and other factors.

Information about 1988 was gathered in early 1989 through interviews with a nationwide sample of farmers and ranchers. The survey is conducted by USDA's National Agricultural Statistics Service and its state offices. Final preparations for the next survey are being made now.

Farms with high debt-asset ratios were fewer in 1988 than in 1987.

The most recent survey found that fewer farms had high debt-asset ratios in 1988 than in 1987.

At the end of 1988, the average debt-asset ratio for U.S. farms covered by the survey was 0.13 (meaning debts equaled 13 percent of assets), compared with 0.15 a year earlier, Morehart says. In 1985, after increasing for 6 straight years, the ratio was 0.22, the highest ever.

U.S. farmers had average assets of $359,600 and debts of $48,200 at the end of 1988, leaving an average net worth of $311,400.

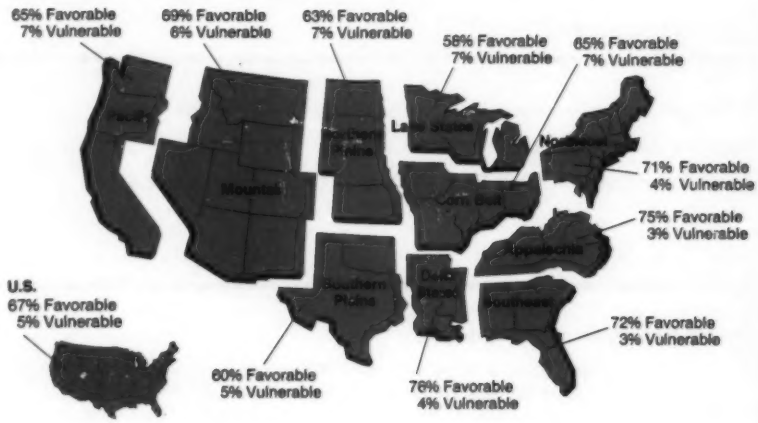
"Higher asset values mean a stronger solvency position for farmers," Morehart says. He adds that much of the increase in asset values has resulted from rising land values. The solvency position has also improved because farmers have continued to reduce their debt levels and to avoid the levels of borrowing that were common in the latter part of the 1970's and the early 1980's. This is reflected by the increase in the number of farms with no debt, decreasing farm operator debt, and the decline in total farm sector debt.

"The improvement was widespread among different economic classes, production specialties, and regions," Morehart says.

But there were exceptions: Farms in the Northern Plains, Southern Plains, Delta, and Appalachia registered declines in average net worth. Farms in the smallest economic classes declined in average net worth. Farms specializing in the production of nursery/greenhouse items showed a small increase in average debt-asset ratio.

Farms with annual gross sales above $40,000 had higher than average debt-asset ratios, up to an average of 0.19 for

The Corn Belt, Northern Plains, Lake States, and Pacific Regions Have the Largest Portions of Financially Vulnerable Farms*



*From the 1988 Farm Costs and Returns Survey.
Farms in favorable condition have both positive income and low debt; those rated vulnerable have negative income and high debt.

Farmers Receive As Well as Give Useful Information

"It's good to give something back to the farmers for their time and effort," says J.T. (Duffy) Barr, Alabama's state agricultural statistician, referring to participants in USDA's annual Farm Costs and Returns Survey (FCRS).

What farmers in a pilot program have been receiving are "Individual Farm Analysis" (IFA) reports.

IFA pilot programs conducted the last 2 years were judged successful by most of the people involved, ERS analyst Mitch Morehart says.

A decision is due soon on how widely to utilize the IFA program in the next national survey, scheduled for February and March, covering 1989 farm finances.

Two years ago, the program was tried in Alabama and Wisconsin. Last year it was expanded to seven more states: Iowa, Nebraska, North Dakota, Pennsylvania, South Dakota, Texas, and Washington.

"We learned a lot during the trial runs, and have made changes in the program accordingly," Morehart says.

"All the information is kept strictly confidential," Morehart says. The overall survey results are combined in aggregate to provide a statistical picture of U.S. agriculture's financial situation.

Receiving an individual analysis is optional. More than 80 percent of those in the pilot programs did request IFA's on their operations. The handling of the data is automated, with the individual reports generated by computer. In 1990, the farmers should receive their IFA reports about 3 to 4 months after the survey is completed March 30.

State reports also are given to all participants in the survey.

"One change we have made is to provide additional explanation of the data, to make the reports more easily understandable," Morehart says. "This was requested by some of the participants."

Each farmer participating in the FCRS provides income, expense, asset, and debt information to a survey enumerator. A computer program figures four financial ratios: debts to assets, cash expenses to gross cash income, interest to gross cash income, and return on assets. It does this after adding up the operation's total income and total expenses, then calculating net cash farm income.

Two formats for the IFA's have been tried—a listing of actual data for a particular farm as compared with averages from similar size and types of farms in the state or percentile rankings of how a farm generally compares with others in the state. Most farmers prefer the actual data to the percentiles, so that is probably the way the reports will be presented in 1990.

Most of the farmers who participated in the evaluation of the trial runs endorsed the IFA program. Nearly three-fourths said the profiles were informative, 63 percent said they were useful, and 72 percent favored continuing the IFA's.

A Pennsylvania farmer commented that "the ratio indicators are very informative." A producer in Washington State said the individual profile "is a very good service."

State officials working on the survey also have had good things to say about the IFA program. "The personalized reports have been well received by farmers and greatly appreciated," said Carroll Spencer, head of the Wisconsin Agricultural Statistics Service.

"The individual farm profiles address a long-sought-after goal of providing the respondent some tangible feedback that he or she can relate to the individual operation," said Pennsylvania State Statistician W.C. Evans.

farms with sales above $100,000. About 25 percent of such farms had debt-asset ratios of 0.40 or more, compared with 10 percent of farms with sales below $40,000. This reflects the traditionally heavier use of debt financing by larger farms, Morehart says.

About 4.4 percent of the nation's farms had debt-asset ratios above 0.70 at the end of 1988. These farms owed 19.4 percent of the total farm operator debt. A year earlier, farms in that category owed 23.4 percent of the debt.

Poultry, dairy, cash grain, and cotton farms had the highest average debt-asset ratios among production specialties in both 1987 and 1988. The Lake States, Corn Belt, and Northern Plains had the highest average debt-asset ratios among regions.

"One of the predominant factors associated with debt-asset ratios is the age of farmers," Morehart says, because younger farm operators establishing farm businesses require substantial credit. As a farm operation is built up, this need diminishes.

Although average net farm income rose in 1988 despite the drought, the share of farms with negative income increased slightly.

Morehart explains some of the basic terms used as follows:

"Net farm income" is the difference between gross farm income and total expenses and indicates the profit or loss associated with current production. It takes into account changes in the value of crop and livestock inventories, depreciation, and nonmoney income such as the rental value of a farmhouse. It indicates the longer-term earnings capability of a farm to survive as an income-earning business.

"Net cash farm income" is a shorter term measure. It indicates the current cash earn-

ings of a farm business. It is basically gross cash income from farming minus farm cash expenses. It does not account for capital consumed in the production process. It shows whether a farm is covering all cash costs, including payment of interest charges out of gross cash income, and shows the amount of cash available to meet family consumption, income taxes, principal payments, and other expenses.

Commercial-size farms with annual sales between $40,000 and $500,000 were the ones most likely to have positive incomes in 1988. More than 75 percent of farms in these sales classes had positive net farm incomes and more than 80 percent had positive net cash farm income.

The largest decreases in the number of farms with positive net farm income occurred in the Corn Belt and Southern Plains, on farms specializing in cash grains, poultry, or nursery/greenhouse products, and those with annual gross sales between $20,000 and $40,000.

Over 65 Percent 'Favorable'

Morehart says that 67 percent of U.S. farms were in a "favorable" economic position in 1988, compared with 69 percent in 1987. Only 5 percent were in a "vulnerable" position, the same proportion as a year earlier.

A vulnerable farm, as defined by the ERS analysts, has negative net income and a "high" debt-asset ratio (above 0.40). A farm rated favorable has positive net income and a "low" debt-asset ratio (0.40 or lower). A farm with positive net income but a high debt-asset ratio is said to be in a condition of "marginal solvency." A farm that has a low debt-asset ratio but negative net income is described as a "marginal income" operation.

The largest changes over the previous year occurred in the marginal income and solvency categories. The marginal income group contained a larger share of farms as a result of earnings problems, while higher asset values and lower debt helped to reduce the percentage of farms considered marginally solvent. Extending the survey results to represent all U.S. farms, about 113,000 farms were classified as vulnerable in 1988, Morehart says.

"These results reflect the diverse economic environment created by the drought," Morehart says.

Producers with crops to harvest or large inventories of commodities in storage benefited from the higher market prices. By contrast, livestock producers in drought-plagued areas were hurt by higher feed costs.

Average net farm income nationwide increased by about $350 to $21,300 in 1988. Average expenses also increased, but not enough to override the expansion in gross farm income.

"The changes in average net farm income by farm types and regions varied considerably," Morehart says. Reductions occurred for cotton, cash grain, dairy, and general livestock operations. By location, there

Larger Farms, by Economic Class, Are More Likely to Be in a Financially Vulnerable Condition

	Favorable	Marginal income	Marginal solvency	Vulnerable
		percent		
All farms	66.92	19.48	8.26	5.33
Economic class:				
Sales above $250,000	59.39	15.90	16.79	7.92
Sales $40,000 to $250,000	62.13	16.25	14.22	7.40
Sales below $40,000	69.38	21.01	5.28	4.33
Production specialty:				
Cash grain	61.68	18.89	12.40	7.03
Tobacco	78.06	10.61	6.35	4.97
Cotton	69.48	14.63	10.19	5.70
Other field crops	71.98	10.93	10.40	6.69
Vegetable, fruit, nut	70.92	17.02	6.71	5.35
Nursery, greenhouse	68.24	18.56	5.68	7.52
Beef, hog, sheep	68.33	22.29	5.21	4.17
Poultry	59.19	9.44	22.79	8.58
Dairy	83.95	14.90	15.10	6.05
Other livestock	53.95	34.31	6.46	5.28
Region:				
Northeast	70.82	18.92	6.52	3.74
Lake States	58.25	21.52	13.16	7.07
Corn Belt	64.60	20.47	8.23	6.71
Northern Plains	63.31	16.25	13.54	6.91
Appalachia	75.07	16.56	5.72	2.65
Southeast	72.25	19.19	5.40	3.15
Delta	75.57	14.34	5.92	4.17
Southern Plains	60.42	27.29	6.83	5.45
Mountain	69.02	15.56	9.31	6.11
Pacific	64.91	18.73	3.02	7.34

Source: 1988 Farm Costs and Returns Survey.

were decreases in the Corn Belt, Northern Plains, Northeast, Appalachia, and Delta.

Tobacco, other field crop, cotton, and poultry operations had the highest share of operators with positive net income. Beef, hog, or sheep and cash grain farms had a higher than proportionate share of farms with negative income.

Government Payments Fall

Direct government payments to farmers averaged $14,257 per farm in 1988, down from $18,017 in 1987, according to Bob McElroy, another ERS economist who worked on the analysis of the FCRS data.

Government payments declined from 9.16 percent of gross cash income in 1987 to 8.06 percent in 1988. Direct government payments totaled $14.5 billion in 1988, $16.7 billion in 1987, $11.8 billion in 1986, $7.7 billion in 1985, and $8.4 billion in 1984. They are forecast at $9-$12 billion for 1989.

One factor in the decrease in 1988 was higher prices for grains and some other commodities. Supplies and stocks of several major commodities were reduced

Survey Data Are "Gold Mine" For Policymakers

Individual farmers as well as farm organization leaders have pointed out the benefits resulting from the Farm Costs and Returns Survey.

Mitch Morehart, Economic Research Service analyst, says that before the FCRS was begun in 1984, many people had questions about just what was happening in U.S. agriculture. Lawmakers, farm organizations, Extension personnel, and farmers themselves tried in vain to determine the basic economic information about farming. The data just were not available.

"The difference, with or without the survey, is the difference between everyone guessing about the financial condition of agriculture or having detailed, reliable information collected from farmers themselves," Morehart says.

"Which direction to go with farm policy is still a political matter," he adds. "But good information can be a help in making the decisions." Frank Johannsen of Bayard, Nebraska, immediate past president of the National Association of Wheat Growers, says the survey "is very valuable."

He believes that the most important use of the data from the survey is in "formulating and modifying federal farm programs." He adds that "having a good set of figures on which to base policy decisions" is valuable for lawmakers and other government officials.

"I'm glad that we farmers and association officers have the opportunity to participate in the planning and evaluation of the survey," Johannsen says.

Harlan Hughes, an Extension specialist at North Dakota State University, says, "We really do need the survey."

He says that in the past "we didn't have much good, detailed financial data" about farming. "It is very important to know what is actually happening on the farms," he says.

"The Farm Costs and Returns Survey is scientific and carefully done," Hughes says. "And as such it provides information that we can be sure is accurate."

Hughes says he and his colleagues work directly with farmers, usually in workshops and other meetings, helping them with budgets, planning, and other aspects of running a farm. "Information derived from the FCRS is extremely helpful in this work," he says.

"I personally would like to see the USDA do even more analysis of the survey findings. Such as trying to explain why the numbers turn out the way they do and why certain farmers are able to achieve the results they come up with."

Hughes says he could use as much information as can be derived from the survey. "It would be worthwhile for a lot of people if the economists could expand their analysis," he says.

"We've got a gold mine here," Hughes says, "and we should get everything we possibly can from it."

The people who gather the information also have a special insight into the value of the survey.

Cathy Douglas of Rossville, Illinois, worked as an FCRS enumerator and supervisor of enumerators for several years. She and her husband, Jerry, are farmers themselves.

"The survey is crucial," she says. "It directly benefits the farmer because the information is used by Congress and the USDA in writing laws and setting policies that affect farmers a great deal."

Each farmer also can see how his or her farm compares with others and perhaps how improvements can be made, she adds. "Farmers have told me that after being interviewed for the survey they knew more about their farms than they did before," she says.

A certain amount of inconvenience is a part of the process, she notes. Going through the lengthy questionnaire takes time—sometimes several hours. Farmers often don't have the exact data requested and have to search it out or do some figuring to get it, Douglas says.

She has been impressed with the cooperation the enumerators receive. "Most farmers are really friendly, good people. They will do whatever they can to help out," she says.

She says the system used in conducting the survey is constantly being analyzed and has been improved over the years. "USDA needs to keep trying to make it easier on the farmer," she says.

because of the drought. This led to higher prices, which meant that deficiency payments were automatically reduced, says McElroy.

Direct government payments as a proportion of gross cash income in 1988 averaged 23 percent for cash grain farms, 20 percent for cotton farms, 3 percent for other crop farms, 6 percent for beef, hog, and sheep operations, 4 percent for dairy farms, and 1 percent for other livestock farms.

Farms in a favorable financial position accounted for 65 percent of major program commodity sales in 1988 and 63 percent of government payments. Farms in a vulnerable position had 6 percent of commodity sales and received 7 percent of government payments. □

[Based on information provided by economists Mitch Morehart, Bob McElroy, and others in the Agriculture and Rural Economy Division of the Economic Research Service.]

Survey Logistics: 44 NASS Offices, 46 Days, 26,000 Farms

About 26,000 farmers and ranchers in the 48 contiguous states will be contacted soon for the sixth annual USDA Farm Costs and Returns Survey.

Wheat, dairy, and tobacco are the "major commodities" that will receive special emphasis in the survey of 1989 farm finances. In addition, for the first time onions and citrus will be emphasized in the 1989 survey.

The questionnaire for producers of those specific commodities will include an additional section, to help in the development of information on production costs.

The survey interviews will be conducted between February 12 and March 30 by local interviewers trained by USDA. Farmers selected for the survey will be notified by letter in late January or early February.

The survey results will be applicable to about 1.8 million of the nation's 2.2 million farms. Those not represented are mainly smaller farms with annual gross sales below $5,000.

"This is the best tool we have for determining what it costs farmers to produce the nation's food and fiber," says economist Jim Johnson, who heads the Economic Research Service team that analyzes the survey results each year.

"The information is available only from the farmers themselves," he adds. "USDA collects the data, organizes it, analyzes it, makes sure it's reliable, and distributes it widely."

USDA's National Agricultural Statistics Service and its 44 state offices conduct the survey. ERS and NASS personnel work on the survey virtually year-round, preparing for the next one while analysis of the last one is continuing.

Results of the survey conducted in early 1989 will be especially important in the deliberations over the 1990 farm bill.

"The survey provides detailed information about how farm programs have been working and thus how they might be adjusted for the future," Johnson says.

Many farmers and farm organizations are involved in the process of planning the annual survey.

USDA has a mandate from Congress to include such groups in discussions of how the information is gathered and used. The 1981 farm bill states:

"The Secretary of Agriculture, in cooperation with the land-grant colleges, commodity organizations, general farm organizations, and individual farmers shall (annually) conduct a cost of production study of wheat, feed grain, cotton, and dairy commodities" to establish costs of production.

As a part of this process, 36 people involved in the wheat industry— producers, association officials, and government and university personnel—met in Kansas City last spring. The main item of discussion at the meeting was how much it costs to raise wheat in various parts of the country.

"We received some excellent comments and suggestions about the survey," says ERS economist Mary Ahearn.

One suggestion will result in the collection of more accurate and useful information about the costs of applying fertilizer through irrigation systems. Also, some of the wheat growers at the meeting came up with a way to get better information about the costs, and the value, of grazing cattle on wheat.

"Such meetings can be helpful to everyone involved, I believe," Ahearn says.

For example, at the Kansas City meeting there was a lengthy discussion of how the nation's most efficient wheat growers are able to reduce costs and increase their net returns.

"This sort of information comes directly from the FCRS," Ahearn says. She adds that the wheat organizations are often the best vehicle for disseminating such information to the individual producers.

The analyst notes that similar meetings have been held with representatives ofother commodity sectors and additional interaction is planned for the future.

Information compiled from FCRS data is made available to the public and the press, of course, but the information is of special interest to policymakers in the federal government. Farmer organizations use the survey results in developing their farm policy positions.

Other users of the information include agricultural lenders, agribusiness firms, farm management consultants, universities, state governments, and Extension agents.

Johnson notes that the survey questions must be detailed in order to accurately measure the condition of U.S. agriculture and to provide sufficient information for policy decisions.

The number of questions asked depends on the size of an operation and the commodities produced.

All farmers and ranchers participating in the survey are guaranteed confidentiality. The survey data are fed into computers at NASS state offices, then the original questionnaires are shredded or burned so there is no record of any individual responses.

"We ask farmers for the information because it is needed," Morehart says. "There's no other way to get it. We depend on the cooperation of the farmers."

REPORTS IN THE NEWS

Food Cost Review: 1988 Rise 4.1%

Food prices increased 4.1 percent in 1988, the same as in 1987. But prices rose at a much higher rate in the second half of 1988 than in the first half, because of the drought and other factors.

Food prices reported in this publication are measured by the Consumer Price Index. Prices in the fourth quarter of 1988 were 5.2 percent higher than a year earlier, the highest rise from one fourth quarter to the next since 1980.

The prices farmers received for commodities, as measured by the farm value of USDA's "market basket of foods," rose 3.6 percent in 1988. The farm value of foods had dropped in 2 of the previous 3 years. As a result, the 1988level was about the same as in the early 1980's.

Grains and poultry led the 1988 advance in farm prices. The overall increase trailed the rise in retail food prices.

The food industry got $298 billion for handling, processing, and retailing foods after they left the farm. Direct labor costs represented 46 percent of this marketing bill.

Although the dollar amount spent for food continues to rise, food spending as a percentage of personal income has declined over the past decade. Personal spending on food, as estimated by ERS, was 11.8 percent in 1988, 13 percent in 1983, and 13.5 percent in 1978.

Food Cost Review, 1988 by Denis Dunham. Published July 1989; 56 pages; $8 ($10 to non-U.S. addresses).

Food Marketing: Mergers Increase

Sales in the U.S. food marketing system reached an estimated $638 billion in 1988, including $254 billion in retail food sales, $210 billion in sales by restaurants and institutions, $100 billion in sales of nonfood items, and $74 billion in packaged alcoholic beverage sales.

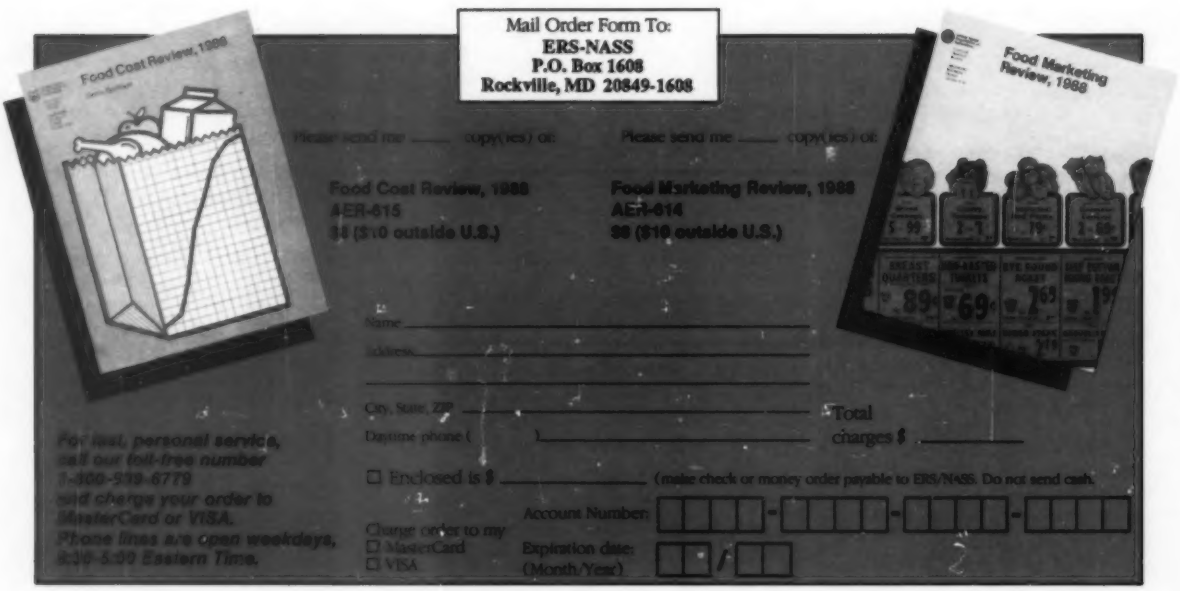
This 116-page report provides a wide range of statistics and detailed analysis of the U.S. food marketing system. Topics covered include food manufacturing, wholesaling, retailing, and foodservice.

The profile of the system includes information about acquisitions and mergers, noting that investor interest in food marketing firms reached an all-time high in 1988. The four largest acquisitions of the year had a total pricetag of $47 billion.

The food marketing system introduced nearly 10,600 new grocery products in 1988, making a total of nearly 50,000 new products since 1983. Retailers significantly increased the number of very large stores during the year. Fast-food restaurants continued expanding their menu selections.

The food marketing system purchased an estimated $100 billion in U.S. agricultural commodities in 1988. It also bought $19 billion in foreign agricultural commodities and $8 billion in seafood products. The system spent an estimated $11.5 billion on advertising in 1988.

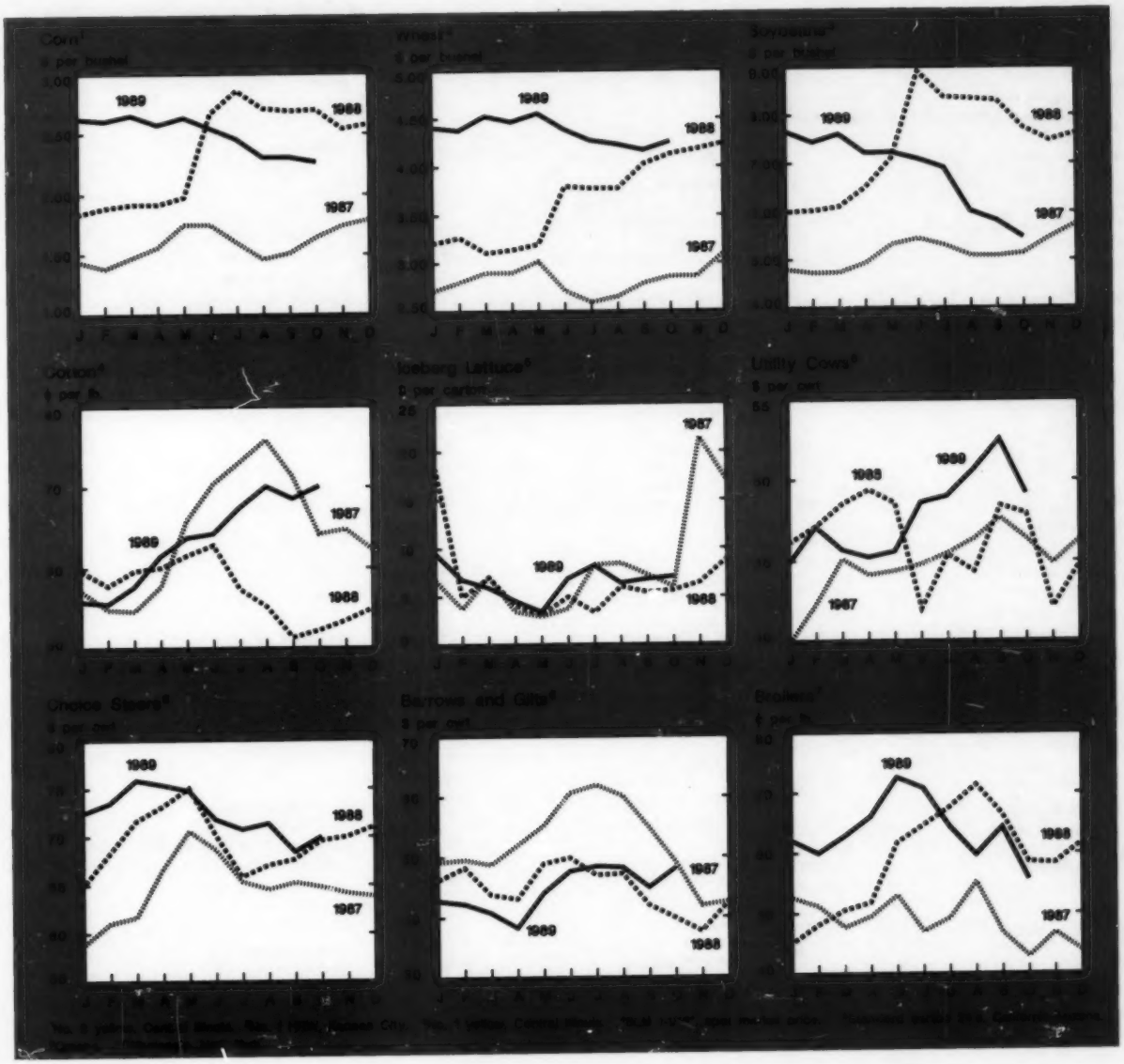
Food Marketing Review, 1988. Published August 1989; 116 pages; $8 ($10 to non-U.S. addresses).



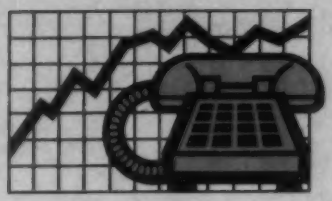
FARMLINE TRENDS

Monthly Price Monitor

USDA's October 1989 inflation-adjusted index of farm prices increased 0.7% from September and from its year-earlier level. Corn slipped to $2.26, the lowest price since May 1988, while wheat gained 9¢ to $4.25. Soybeans, down 35¢ to $5.46, were at their lowest since November 1987. After a slight decrease to 68.5¢ in September, cotton rebounded to 70¢ per lb. Iceberg lettuce rose 26¢ to $7.00 per carton. Utility cows lost $3.36 to $49.14 per cwt. Choice steers rose $1.54 to $69.88, their second lowest price this year. Barrows and gilts jumped $3.21 to $48.01. Broilers were down 8.6¢ to 55.6¢ per lb., their lowest price since April 1988. All prices shown are monthly averages.



Dialing Up Economic Information



Need economic information or data on today's, tomorrow's, or even yesterday's agriculture? The economists, statisticians, and other specialists of the Economic Research Service and National Agricultural Statistics Service may be able to help. Here is a brief telephone guide that you can pull out and add to your files. Generally, those listed with an "S" for "Statistics" can give you data on acreage, yield, production, livestock numbers, and stocks. Those identified with an "E" for "Economics" can help with supply-demand-price questions and other economic issues. All telephone numbers are in area code 202.

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Behind the GATT Drive to Broaden Agricultural Trade

By the end of 1990, representatives of more than 100 nations, including the United States, expect to complete an agreement on new procedures for marketing agricultural commodities internationally.

The accord would require countries to change the ways they subsidize farm production, probably reducing their support for some commodities for the next several years—at least to the end of the 1990's.

The farm subsidies would have to be altered or abolished because the negotiating nations are parties to the General Agreement on Tariffs and Trade. The purpose of the GATT, now four decades old, is to promote the lowering of trade barriers through regular negotiating sessions among all members and covering all items of international commerce. Unless they have special permission, countries participating in the GATT agree to use a very narrow range of methods to control prices for imports and exports. A participant shown to be fixing prices through unsanctioned procedures like producer subsidies must stop the practices or face retaliatory action such as countervailing duties.

From the beginning of the GATT, farm products have held special status.

The "level playing field" often mentioned by trade negotiators is the rationale of the GATT: to encourage the conversion of trade restraints, which are often ambiguous, into equivalent, unambiguous import duties. The GATT maintains a low profile when negotiations are not in progress, except in times of economic stress. Then the GATT framework helps to restrain governments from actions they might later regret.

Farm goods as well as industrial products and raw materials are covered by the GATT. In the seven rounds of negotiations that have been concluded since the GATT was established, trading barriers have been significantly lowered for nonagricultural products. While the use of export subsidies for these goods was generally renounced, various countries continued the practice with impunity. At the last round, which began in Tokyo, GATT members not only reiterated their opposition to the subsidies but also broadened retaliatory procedures.

Until this decade, some nations have tried to keep farm products out of the GATT's multilateral trade negotiations (MTN) so that their farmers would not have to compete with worldwide prices. While some agricultural trade barriers were reduced in the Tokyo round, participants also acted contrary to GATT principles by tacitly legitimizing export subsidies for farm products and the concept of market sharing.

"There are no 'free traders' among the world's agricultural trading countries," the USDA's Economic Research Service reported in 1987 in a worldwide study of government intervention in agriculture. "Without exception and with varying degrees of comprehensiveness and success, all governments intervene."

The origins of export subsidies, say ERS historians Jane M. Porter and Douglas E. Bowers, "are shrouded in the history of market development and marketing." The two have been studying the history of U.S. agricultural trade negotiations.

Porter and Bowers report that the United States had tried in the early 1960's to bring farm goods into what was called the Ken-

Thorny Problem At the GATT Talks: Measuring Subsidies

With each country controlling its farm production through unique programs, the GATT discussions of government intervention require some kind of common measurement.

The Economic Research Service estimates that there are as many as 4,000 sets of national rules on crops and animal products, and that each set has dozens of subsets of specific policies. Establishing a free market in agricultural trade would involve revising each policy.

Many of the GATT negotiators prefer to evaluate the degree to which a particular commodity's production is affected by the government. This "aggregate measure of support" is expressed as a percentage, and it loosely reflects—it is not exact—the difference between the world price of a commodity and the domestic cost.

Some GATT negotiators, including the United States, favor defining the subsidies in terms of the producer subsidy equivalent (PSE), which represents approximately what a government would have to offer a producer to continue the same level of support if current government programs were removed. Depending on the country and the commodity, a PSE may be positive or negative. A negative value means the government is taxing rather than aiding the producer.

Another measurement is the consumer subsidy equivalent (CSE), a percentage estimate of how the retail price of a commodity would change without government controls. It also can be either positive (the price would go down) or negative (it would go up).

A third measurement, the trade distortion equivalent (TDE), looks only at international trade. Some nations favor this tool because it omits such government benefits as agricultural education and research and extension programs.

More information is available from ERS in an illustrated booklet in nontechnical language, "GATT & Agriculture: The Concept of PSE's and CSE's." It can be ordered in the United States for $5.50 a copy through ERS-NASS, P.O. Box 1608, Rockville, MD 20849-1608 or by calling 1-800-999-6779.

nedy round of MTN. Members of the European Community successfully kept these commodities out of the general trade talks because the EC at that time had not worked out its Common Agricultural Policy (CAP). Separate, special arrangements were made for some commodities (for example, on grains and meat) and several countries negotiated bilateral trade agreements outside the GATT, both types of settlements that were considered to be contrary to the spirit of the GATT. The practice has continued for nearly 25 years, and many of the agreements have been regularly renewed.

By contrast, over the same period, most GATT members have increasingly opened their markets to industrial products.

Growing Trade Group

The GATT, adopted in 1947 by 23 nations including the United States, today covers nearly 100 nations and 80 percent of world trade. More than a score of nonsignatory nations also participate in its discussions.

Part of the impetus for the initial GATT negotiations some 40 years ago was the belief that import quotas, tariffs, domestic subsidies, and similar trading practices can be as injurious to other nations as military actions. The trade conflicts of the early 1930's, in the opinion of the negotiators, had contributed to the outbreak of the most devastating war in history. The scars of that war, just ended, were still visible throughout Europe and Asia when the GATT was drafted.

Nations that participate in the GATT are committed to nondiscrimination and equality in all trading relationships and for all goods. Members are expected:

- to use tariffs as the only form of trade barrier (as opposed to such devices as quotas and export subsidies),
- to adhere for at least 3 years to trade levels negotiated through the GATT, extending to all in the GATT any reduction negotiated with one participant, and
- to avoid trade disputes through regularized procedures for notification, consultation, arbitration, and if necessary, compensation.

The GATT recognizes that nations may want to protect certain domestic industries. If this protection is applied only through a tariff, however, then the shield is said to be "transparent"—visible to all GATT members—and subject to negotiation.

From the beginning of the GATT, farm products have held special status. Countries were allowed to temporarily restrict farm exports during domestic shortages, to restrict imports to relieve surpluses, and to restrict both exports and imports under classification or grading standards.

Since 1955, the United States has exercised a special waiver of GATT rules for U.S. farm goods. Section 22 of the Agricultural Adjustment Act of 1935, and regularly reenacted by Congress ever since, requires the imposition of import quotas on any commodities that interfere with the sale of domestic commodities produced under price supports. Over the years Congress has allowed negotiations aside from Section 22 for wheat, cotton, wool and man-made fibers, and tropical agricultural products, which include tobacco.

Until the current round of MTN, attempts to bring domestic farm programs under GATT discussion have been generally ineffective. Proposals to discuss the pricing of farm goods were largely postponed or tabled by GATT members. Apparent violations of the GATT prohibition against nontariff barriers were brushed aside with the claim that farm-support programs were a matter of "internal domestic policy" not subject to international negotiation. The U.S. waiver was often cited as justification.

One of the key activities of the Tokyo round, however, was the effort to reform trading in tropical agricultural products, largely shipped by the developing countries. The developed nations did lower barriers for many of these goods, but the cuts were virtually negligible for high-revenue commodities, such as tobacco, oilseeds, selected fruits and processed items like vegetable oils and wood products.

Opposition to bringing farm price-support programs into the MTN weakened in the

Exchange Rates May Be Significant Trading Obstacle

Government intervention is not the only factor that inhibits freer trade in agriculture, say two economists. Another difficulty is the cost of money.

In a recent study of monetary factors influencing GATT negotiations on agriculture, they found that the swings in interest and exchange rates seen during the 1970's and 1980's produced excessive agricultural investment in the developed countries.

The same factors also reduced trade with the developing countries, say Mathew Shane of the Agriculture and Trade Analysis Division of ERS and Stephen W. Hiemstra, formerly of ERS. The consequence of these changes? More surpluses among the developed countries.

While the economists say that they do not have any solutions for this dilemma, they argue that procedures to control exchange rates may be as significant as reduced government intervention in agriculture. This is especially true for the developing countries, they say.

When a high proportion of a country's exports consists of food and other raw materials that trade like money, the prices of the money and the goods will rise and fall together, explain Hiemstra and Shane. Such a country may prefer to barter than to pay cash for goods, and barter transactions are discouraged under the GATT.

1980's because of the high government costs of these programs, report Bowers and Porter.

Early in the decade, the United States lost significant market share because of a combination of high farm-price supports and a gradual increase in the exchange rate for the U.S. dollar.

In the middle of the decade, the United States forced the dollar down and boosted farm exports through its Export Enhancement Program. These changes made U.S. farm products more competitive worldwide and drew down stockpiles accumulated earlier. The EC, which had expanded trade at U.S. expense earlier in the decade, had to market its high-cost farm surpluses at world prices and absorb the difference.

New Elements in Uruguay Round

The eighth round of GATT negotiations opened in September 1986 in Punta del Este, Uruguay. The producer nations among the negotiators were in general agreement that trade was out of balance, and that the domestic policies of those nations were among the causes of that distortion. Farm subsidies in the United States and Europe at that time were estimated at $25 billion a year on each side of the Atlantic, and nonsubsidizing exporters such as Canada and Australia were losing market share. (Unofficial estimates of the subsidy costs for the year 1988 were $74 billion in the United States and $124 billion in the EC.)

In July 1987 the United States formally proposed the gradual elimination of all market-distorting support for farm commodities. The United States announced it was willing to negotiate over all the forms of support and protection the government gave to agricultural production.

Within the next 7 months, six additional proposals for eliminating subsidies—to varying degrees—were laid on the table, by various GATT participants—the EC, Japan, Canada, the "Nordic Group" (Finland, Iceland, Norway and Sweden), and the "Cairns Group" (mostly agricultural exporting nations and mostly in Latin America or on the Pacific Rim), and a group of food importing nations including Jamaica.

In April 1989, the GATT members agreed to negotiate new rules for agricultural trade and to freeze existing nontariff barriers while negotiations are under way. The discussions also are to cover the procedures for measuring the value of trade barriers and whether farm supports can be "decoupled"—by separating farm income supports from commodity price supports.

Other articles in this issue discuss the potential effect of lowered trading barriers for two commodities produced in the United States: wheat and sugar. □

[Based on information supplied by Douglas E. Bowers and Jane M. Porter of the Agriculture and Rural Economy Division; Arthur Dommen, Carl Mabbs-Zeno, Mathew Shane, Jerry Sharples and the staff of the Agriculture and Trade Analysis Division; and Kate Buckley of the Commodity Economics Division of the Economic Research Service.]

Freer Trade Seen As Boost To U.S. Wheat Producers

American wheat producers could capture a much larger share of the world wheat market if trade flows became freer and more flexible.

That's the conclusion of economist Joy Harwood of USDA's Economic Research Service, who recently studied how the global wheat market might change if current multinational trade talks succeed in bringing down barriers to trade.

However, greater gains by U.S. producers hinge on several factors, she says.

"The United States could increase its share of the world market if policy reforms by major trading nations expand world wheat demand or cause production in other countries to fall, if U.S. prices are competitive, and if U.S. producers find wheat production to be more profitable than the production of other crops," says Harwood.

(Continued on page 17)

Sugar Producers, Users Could Gain a Fairer Marketplace

Trade barriers that have long protected the sugar industry worldwide and in the United States are being reevaluated, both in the U.S. Congress and in the 97-nation General Agreement on Tariffs and Trade (GATT). The outcome may be a freer market for the heavily traded commodity.

Sugar, produced in about 100 countries, is one of the world's most traded and protected food commodities, says economist Annette Clauson of USDA's Economic Research Service. Sugar is an ingredient in most food items and plays an essential role in the food chain. It is also an important source of revenue to most countries. Therefore, the concern for, and protection of, sugar is worldwide.

"Most major sugar-producing countries maintain more than one sugar policy to protect their producers and consumers from market price fluctuations," says the economist. Such programs include

(Continued on page 19)

Wheat *(continued from page 16)*

This cautiously optimistic outlook, she says, is based on the comparative advantage held by the United States in wheat production when matched against most other nations. That advantage stems from favorable climate, soils, and a well-developed marketing system and research base.

"On balance, U.S. wheat production costs are competitive with those of most other major exporters," says Harwood.

But that advantage is not absolute.

"The United States cannot claim an outright cost advantage," says Harwood. "An analysis of relative costs indicates that, in some years, Argentina has had total wheat production costs almost 35 to 50 percent lower than in other major exporting countries."

Even so, the U.S. edge becomes clear when volume of production is considered.

"Examining the 'average' production costs among countries under the present system of supports is a little misleading," says Harwood. "The United States produces more wheat than the any of the other major exporters, except the European Community (EC). With U.S. production at levels nearer those of export competitors, U.S. average production costs would be substantially lower. This is because high-cost production, often made possible by high domestic supports, would be the first to be eliminated."

She says the evidence collected so far supports this reasoning. "Data from USDA for 1974, 1981, and 1986 suggest that the variable production cost of a large part of each crop is below the average variable cost of most other countries."

Moreover, she adds, comparisons of production costs must also take into account the fact that costs vary according to other factors.

"Production costs in any year vary widely from farm to farm within a region or country because of differences in yield potential, technology, and management expertise," says Harwood.

And the United States has certain advantages to which low-cost producers may not have access. "Much of the current competitiveness of the United States in world trade stems from its unmatched research base and its well-developed transportation, marketing, and distribution system."

Beyond any benefits to the United States, though, says Harwood, there are other reasons why freer wheat trade is a good idea—including the fact that much wheat around the world currently is grown by inefficient producers.

Wheat's Vital Role

"Wheat plays a unique role in the world agricultural economy," says Harwood. "It is a key staple used in a wide range of food products and as a livestock feed in developed, centrally planned, and developing countries."

It is also, she says, one of the most widely traded commodities—measured both in absolute terms and in terms of the proportion of production imported and exported.

"Most countries produce at least some wheat," says Harwood. "But most countries are also involved in wheat trade for a number of reasons, including climatic restrictions on where, when, and what class of wheat can be produced, wide year-to-year swings in wheat production due to weather fluctuations, and differences in wheat classes that have led to a complex system of premiums, discounts, and specialized markets."

Because of its importance as a widely traded staple and as a major source of farm income in many countries, wheat is heavily regulated and would be one of the first

Decision Time in European Community

For the European Community (EC), freer trade may mean a sizable decline in its large wheat export trade.

The EC, in fact, has become well-known (especially to U.S. wheat farmers and traders) as a major wheat producer and exporter without a regionwide comparative advantage in wheat production.

EC producers are guaranteed high and stable returns through the workings of the Common Agricultural Policy (CAP).

"The CAP supports high internal grain prices through variable import levies, export restitutions, and intervention, target, and threshold prices, which shield internal prices from cheaper imported wheat and allow disposal of surplus grain," says Harwood.

The intervention price is the price at which government agencies are obligated to buy grain. It provides a floor below which, in theory, market prices should not fall. The threshold price prevents the sale of imported grain at prices below that of the target price (the designated average market price). The threshold price equals the target price after transport, handling, and other costs for delivery to ports are deducted. "When internal EC market prices exceed world market prices," says Harwood, "restitutions are paid to exporters to ensure that EC grain is competitive on export markets. Such payments are determined either by competitive bids by exporters or by the EC Commission, which governs CAP operations."

Harwood projects that EC production of wheat at the present level is unlikely to continue under trade liberalization.

"If EC wheat production declines, the United States and Argentina are best suited to increase their wheat production and supply former EC markets," says Harwood. "Even though total world trade may decline, it is likely that non-EC trade would rise."

commodity groups to feel the effects of trade liberalization.

"The world wheat market is shaped by domestic and trade policies," says Harwood. "Government intervention takes the form of import and export programs, price and income support programs, and domestic marketing programs. These programs have played a major role in creating the world wheat market of the late 1980's."

Unfortunately, "these policies can effectively relocate production and alter consumption, shifting output from efficient producers who could compete without protection to producers who are protected and less efficient," says Harwood. "Producers who are guaranteed high and stable prices, despite surpluses or shortages, hold an artificial advantage and can overproduce with little or no penalty. The most extreme cases of economic protection can be traced to such countries as Japan and those of the EC, which ensure domestic prices among the highest in the world and encourage production at the expense of farmers in Canada, Australia, Argentina, and the United States."

Domestic policies can have a large impact on world prices through export subsidies.

"If countries with a large share of the world market export at subsidized prices," says Harwood, "world prices are artificially depressed. And until the 1988 drought, world wheat prices were low, in part due to subsidization by the EC and the United States. By taking such actions, these countries pay a high price in lost foreign exchange but consider it an acceptable price to pay for domestic farm stability and the ability to gain substantial export market shares."

World market prices can also be distorted by domestic policies in other ways.

"With the link between world and domestic wheat prices muted or broken, wider swings in world prices currently are necessary to adjust supply and demand to market shocks," says Harwood.

The United States cannot claim an outright cost advantage in wheat growing.

How would this situation change as a result of reforms that reduce restrictions on farm trade?

"Some research suggests that after policy reform, a world supply or demand shock, such as a crop disaster, would result in a smaller world price movement than under the current regime," says Harwood. "This is because removing trade barriers means that a greater number of market participants, both producers and consumers, would share in adjusting to this shock, easing the burden on those most vulnerable to change."

While the effects on specific countries are uncertain, the general impact of policy reform is clear, she adds. "Among the industrialized countries, gains from policy reform depend on the existing levels of domestic protection and different countries' comparative advantages."

For Japan and the EC—where the wheat sectors are among the most heavily protected—policy reform likely would translate into market losses for wheat producers.

"But overall gains for these countries would be large because of their more efficient resource use and substantially lower consumer prices for wheat," she says. "In the United States and Argentina, where overall gains to the economy would likely be small, efficient farmers would profit significantly over the long run from policy reform and its expansion of their overseas markets."

Under freer world trade in wheat, she says, the major benefit would be through a net increase in global economic surplus.

"Agricultural support policies have reduced national income by inefficient resource use and transferred incomes from the nonfarm to the farm sector and from consumers and taxpayers to producers," says Harwood. "In certain countries, nonagricultural sectors would likely be stimulated as protection levels are reduced, making an important contribution to both national and global economic growth. In most countries, however, shifts in production would likely occur within the agricultural sector."

Harwood goes on to say that "the gain in global economic surplus would be realized mainly through the reallocation of resources. Agricultural subsidies currently in place act like a tax on other sectors."

She explains that if a subsidy produces higher returns to agriculture than would otherwise occur, resources that are mobile (capital and labor, for instance) will be drawn into agriculture. Resources drawn into agriculture come from other sectors because the supply of capital is fixed in the short run. Reducing the supply of capital in nonagricultural sectors causes the price of capital to rise—in effect, creating a tax on capital, misallocating resources, and reducing economic efficiency.

"Studies done to date typically agree that a net gain in economic surplus would accrue to the major players in the world wheat trade," says Harwood, who adds that taxpayers in these countries appear to be the main beneficiaries.

Overall, total gains to taxpayers appear largest in the EC and the United States.

In traditional exporting countries, such as Australia and the United States, the increase in agricultural output would be accompanied by an increase in non-agricultural output. "The trade balance in these countries would likely improve as the world prices of farm products rose," says Harwood. "Capital and labor use in agriculture would increase, along with the total capital stock." □

[Based primarily on information provided by economist Joy Harwood of the Commodity Economics Division, Economic Research Service.]

Sugar *(Continued from page 16)*

domestic and import price controls, export controls and subsidies, minimum prices to farmers, and production quotas. The current U.S. sugar program includes import controls and a minimum price to producers.

"Sugar, historically, has been one of the most volatile of all commodity markets," says Clauson. For example, monthly world raw sugar prices have ranged from 2.7 cents to 41.1 cents per pound in the 1980's. "When supplies are low, prices rise sharply, impacting consumers. Conversely, when supplies are high, prices are severely depressed, impacting producers. One factor that cannot be controlled is the weather, making harvested acreage, yields, and sugar recovery rates unpredictable from year to year," says the economist.

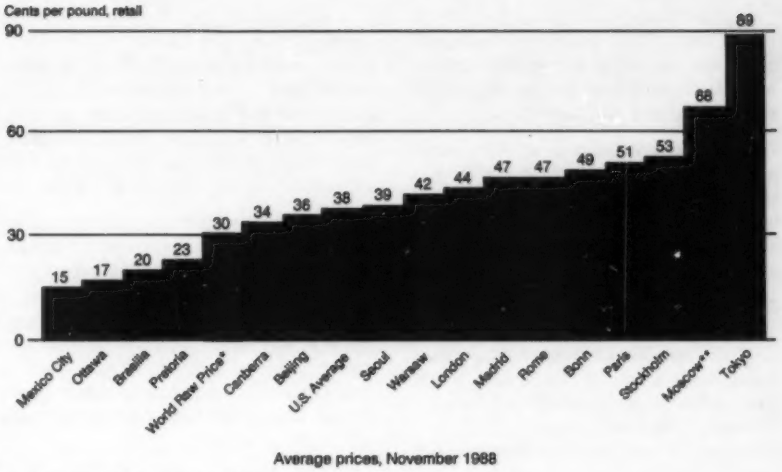
ERS analysts say that quotas (restricted imports) are necessary to protect domestic sugar producers from competition with world sugar when prices are depressed. The U.S. program maintains a domestic price for raw sugar high enough to avoid defaults on processors' Commodity Credit Corporation (CCC) loans.

"Only about a quarter of world sugar is traded in international markets, and an even smaller amount, about 15 percent, is currently traded at world prices. This is an important point, since many people believe that unlimited quantities of sugar can be bought at the 'world price.' In reality, world-priced sugar is a small uncommitted amount that is sold for whatever price it might bring," says Clauson.

Consumers pay the cost of world sugar protection at different rates, depending on where purchases are made. Little of the sugar traded in the world market is sold at world market prices, says Clauson. Almost all is sold at prices reflecting the domestic sugar policies of the trading countries.

For example, according to a survey conducted by U.S. agricultural attachés in 1988, sugar prices varied significantly in each country. In Canada, where world market sugar is available, the government provides a guaranteed return to growers in the form of income support payments. Retail prices in Ottawa were low, about 17 cents per pound, although prices varied and averaged 29 cents a pound in other cities, according to a Canadian government survey. At the other end of the spectrum, in Japan, which has substantial duties, sugar sold at 89 cents a pound. The U.S. maintains a price support program protected by import quotas, and the price to consumers in 1988 averaged 38 cents per pound.

Consumer Prices for Sugar Reflect Domestic Policies Rather Than World Market Prices



Average prices, November 1988

*Includes U.S. marketing cost. **Official exchange rate.
Source: USDA, World Agricultural Outlook Board, November 1988.

Very little sugar is actually traded at the world price.

Sugar-exporting nations have criticized the United States for maintaining its sugar-import restrictions, including a formal challenge brought by Australia through the GATT dispute settlement process against the allegedly improper implementation of U.S. import quotas. The European Community also filed a complaint through the same GATT process against the United States for its use of the Section 22 authority of the Agricultural Adjustment Act of 1933 to impose import restrictions on sugar-containing products.

Implications of GATT Proposals

GATT negotiators have debated proposals to restructure and decrease trade distorting agricultural subsidies. In April 1989, GATT negotiators reached framework agreement. Clauson says that although no major issues were resolved, the language appears flexible and strong enough to suggest substantive long-term reductions in import barriers, supports, and subsidies.

The framework agreement did not include specific language on the level of reductions or a schedule for such reductions. Since agriculture will be one of the toughest resolution areas, says Clauson, trade negotiators are expected to propose more specific intentions by January 1, 1990. Trade negotiators plan to discuss long-term reform proposals and complete the negotiations by late November or early December 1990 in the Uruguay round.

Clauson points out that the language on import access and support levels in the framework agreement works within the scope of its members' existing legislation, and their existing rights and obligations as members of GATT. For the short term the language of the agreement ensures that:

• *"Current domestic and export support and protection levels are not exceeded, except as required by current law."*

For the United States, the current 18-cent per pound loan rate specified in the 1985 farm bill could not be increased and additional protection measures and import quota restrictions could not be added, except under existing legislation.

Clauson explains that the U.S. sugar program offers nonrecourse loans for raw cane sugar and refined beet sugar. A price objective, called the Market Stabilization Price, and the quotas on imported sugar allow a domestic price to be maintained that encourages processors to redeem loan collateral, rather than to forfeit the sugar to the federal government.

• *"Participants shall be deemed to be in compliance with this undertaking so long as the access opportunities granted to individual products in 1989 and 1990 are not less than those granted in 1987 and 1988."*

Clauson says the wording is unclear on whether the intent is the maximum, minimum, or some average. If some averaging method is used, the U.S. raw/refined sugar import quota levels in 1989 and 1990 would not be reduced below the combined 1987 level of 1.0 million short tons and the 1988 level of 1.06 million short tons. The escape clause, "within the scope of existing legislation," permits reduction of the import quota level if necessary to avoid forfeitures of sugar to the CCC.

• *"Support prices to producers are not raised above the level prevailing at the date of this decision."*

This means that the 18-cent loan rate for sugar cannot be increased in the short term. Changes in support limitations and access restrictions beyond 1990 will likely be dictated by the Uruguay round.

One of the changes in import quotas of sugar committed to the United States was announced in September 1989. The quota (for all exporting countries) was increased from 1,125,255 metric tons, raw value, to 1,986,950. Also announced was a 9-month extension of the quota period (until September 30, 1990). This change puts quota shipments for the 21-month period at a somewhat higher level on a 12-month equivalent basis than the previously announced quota of 1,125,255 metric tons.

When announcing the changes, Secretary of Agriculture Clayton Yeutter said, "We are continuing to look at the options for bringing quotas into conformity with the GATT, but a decision on how to do this has not been made. In the interim, this modification of the import quota and the quota period is necessary to correct for a tightness in our sugar market, particularly during the last quarter of this calendar year."

Long-Term Goals

Long-term goals will require that GATT negotiators provide a fair environment for sugar trade, says Clauson. Industry spokesmen attending the April 1989 GATT negotiations in Geneva offered the following opinions:

• *While the United States is an average cost world producer, the United States and most other sugar-producing countries cannot compete with the usually lower priced excess sugar placed on the world market.*

Clauson explains that world sugar production increased by about 30 percent from 1975 through 1988/89. The largest exporting regions—the Caribbean, the European Community, Australia, and Central/South America—together had 16.5 million metric tons of *excess* sugar to trade in 1988/89.

Multilaterally eliminating protectionist policies and restraining countries from dumping sugar at depressed prices on the world market will need to be addressed, say the industry spokesmen.

• Congress will review sugar price support levels and market access issues during the 1990 farm bill debate. The U.S. government wants farm program changes that produce a more market-oriented agriculture, and these changes will likely include risks and incentives for producers. Because of budget constraints, speculate industry spokesmen, there will likely be no increased support levels for commodities in the 1990 farm bill.

• The sugar program's current no-cost provisions require the avoidance of accumulations of sugar by the CCC. Adjusted for inflation, the 18-cent loan rate set in 1985 is actually 15.5 cents today. U.S. sugar producers and processors have had to increase efficiency to offset the loss.

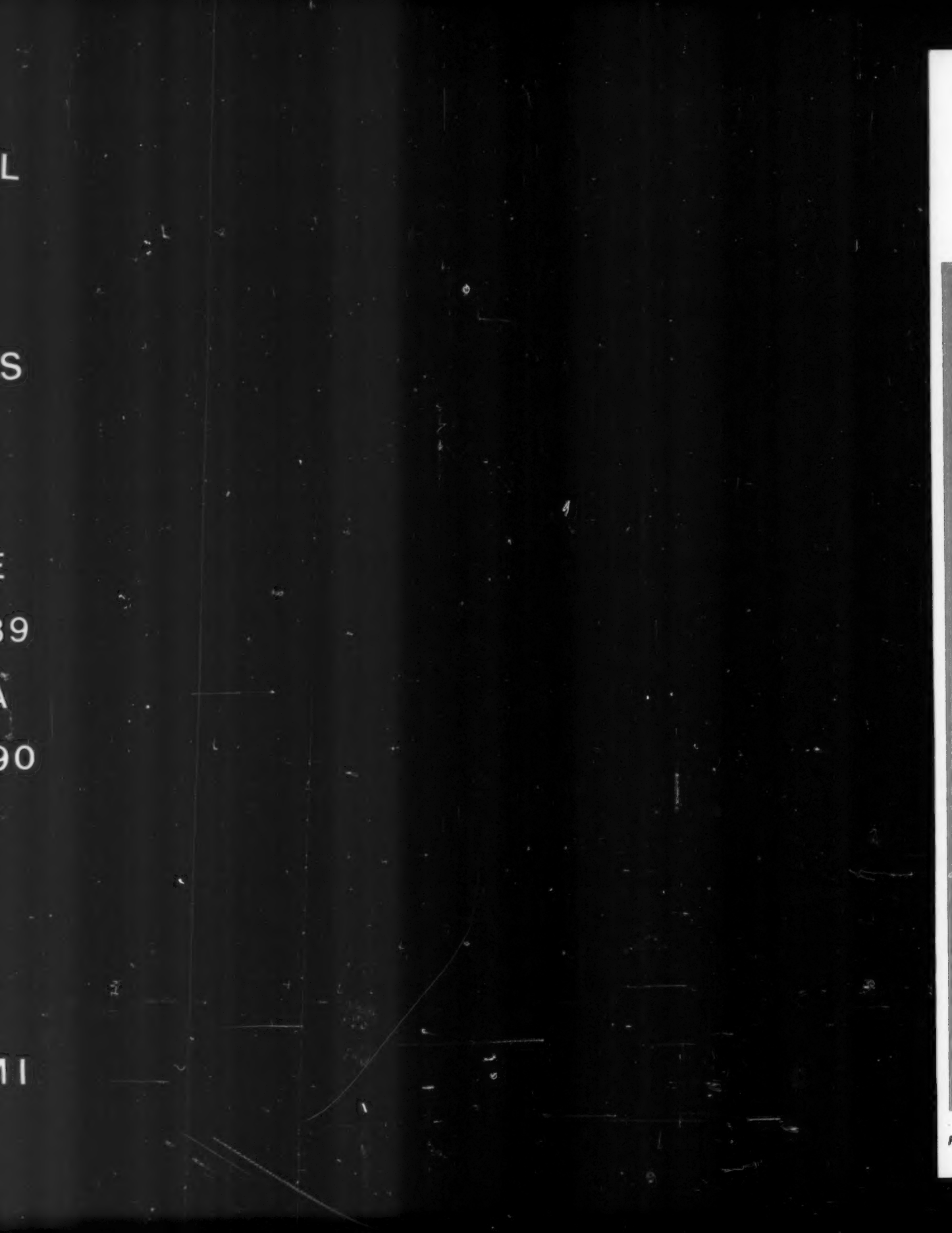
• In the opinion of industry spokesmen, U.S. policy during the transition period, while protectionist policies are being removed worldwide, might include one or more of the following: marketing allocations by factory or mill, acreage reductions and quotas, a reduction of the loan rate, a tariff-quota system, and a two-price system for domestic sugar that includes marketing a fixed quantity at a guaranteed price and excess sugar at the world price.

• After all protectionist policies are removed worldwide, the world price for sugar should effectively fluctuate around a level that covers all production, processing, and milling costs in most major producing countries. Such a level, say the industry spokesmen, would be considerably above current prices.

The length of transition periods, currency fluctuations, and social, health, and safety requirements for U.S. workers versus other developed and developing country workers are specific topics requiring further discussion by GATT negotiators when moving from short-term to long-term agreements.

"The heavy protection in international sugar markets makes reducing all trade barriers for sugar a major undertaking for GATT negotiators," says Clauson. □

[Based on information provided by economist Annette Clauson of the Commodity Economics Division, Economic Research Service.]



Will Tighter Supply Spur the Drive to Lift Controls on Sugar?

Sugar, one of the world's most traded food commodities, "could be headed for a bull market," says ERS sugar analyst Peter Buzzanell. In 1989, tight supplies and increasing prices characterized the world market.

Contributing to the tight market were major cutbacks in Brazil's exports because of its automobile fleet's sugar-based ethanol demand, and the USSR's entrance into the world market because its Cuban sugar source had become unreliable, says the economist. Also, Mexico and Indonesia made unusually heavy purchases and there was considerable market speculation that India would enter the market.

The increase in sugar consumption in most countries is outpacing production, chipping away at world stocks. This year (1989/90), world sugar production, forecast at a record 106.75 million metric tons raw value, is nearly 2 million tons less than consumption. Sugar consumption is forecast to rise 1 percent in 1989/90 to a record 108.72 million tons, and exceed production for the fifth straight year. If so, global stocks will be their lowest since 1980/81.

Internal problems in Brazil and Cuba had the greatest effect on the sugar market in 1989, says Buzzanell. Brazil, normally the third largest sugar exporter, sold only 1.37 million tons in the world market, its lowest sales since 1975/76. Brazil's exports to the United States so far have been less than one-quarter of what we usually get from them.

Internal demand for cane in Brazil is high, says Buzzanell. Brazil's new fleet of cars, produced in-country, require ethanol fuel. Brazil diverted two-thirds of its cane production to manufacture the fuel.

Also, Brazil is privatizing all sugar exports, eliminating its Sugar and Alcohol Institute's monopoly on marketing. However, the Institute has been made responsible for setting export quotas to guarantee that domestic sugar needs are met and that only excess production is available for export.

The USSR's imports are tied to Cuba's problem with foreign exchange. Traditionally, about half of Cuba's sugar is exported to the USSR. In 1988, about 20 percent of Cuba's remaining export sugar was sold to China, 15 percent to other East European countries, and 18 percent to other countries.

Seventy-five percent of Cuba's foreign exchange comes from its sugar trade. Problems with insufficient inputs to improve the industry slowed production growth, resulting in reductions in exportable surpluses to nonsocialist markets. Cuba is caught in a "vicious cycle," say ERS economists, because these markets are the main sources of foreign exchange needed to buy capital goods to improve Cuba's sugar industry.

In an effort to increase its foreign exchange, Cuba overcommitted sugar sales to countries other than the USSR in 1989. As a result, Cuba had to postpone several shipments to Japan, its most important nonsocialist export market, and it bought substantial amounts of sugar on the open market to fulfill its commitment to the USSR. Currently Cuba is an unreliable source for the Soviets, says Buzzanell, causing the USSR to open its refined and raw sugar market to other exporters.

Consumer demand for sugar in the USSR is very high, says the economist. The Soviets have one of the highest per capita sugar consumption rates in the world. Sugar is just behind grain as the USSR's major import.

Despite assertions earlier in 1989 that their buying was over, the Soviets were very active in purchasing 300,000 tons of refined sugar and 200,000 tons of raw sugar. Buzzanell says they needed the imports to service the traditional surge in summer demand and perhaps to offset supply tightness because of smaller-than-expected domestic output and lagging supplies from Cuba.

Other pivotal countries affecting the world sugar trade are:

China: Prospects that China would reenter the market in a big way last summer as it did in 1988 did not materialize, says Buzzanell. While total imports for 1988/89 are estimated at 3.0 million tons, it appears that the Chinese government has been drawing down stocks rather than expanding imports, says the economist. In part, this may reflect a lack of foreign exchange for imports as well as working off excessive stocks. China is likely to remain the world's second largest sugar importer after the USSR.

India: The sugar production forecast was reduced nearly 5 percent in 1988/89 as a larger-than-expected amount of sugarcane was diverted from sugar mills to traditional nonmill uses. This reduced output implies that India could be a significant net importer in 1989/90 for the first time in 3 years.

Thailand: The striking production performance of Thailand transformed the country from a minor sugar exporter to the world's third largest in 1988/89.

Buzzanell says that the Thai industry is likely to be the important moderating factor to the potential run-up in world sugar prices during 1989/90.

World sugar prices were more volatile than usual in 1989. But the moderating influence on the world market are prospects in the coming months of improved beet sugar output in Western Europe, the Soviet Union, and Eastern Europe, and cane sugar from Australia and Thailand.

New Status for Hungary Opens Way to Long-Term Agricultural Trading

On October 26, within days after Hungary declared itself a democratic republic, President Bush granted it permanent Most Favored Nation (MFN) status.

Previously Hungary had held MFN status on an annual basis since 1978. The permanent status enhances Hungary's ability to form long-term agricultural trading partnerships in the United States.

At the time of President Bush's announcement, Congress was preparing to extend MFN to Hungary for 3 years. In September, the Hungarian parliament passed a free-emigration law, to be effective in January, and Hungary allowed East Germans on its territory to cross the border to Austria.

"U.S. lawmakers saw these initiatives as demonstrations of Hungary's intention to pose no barrier to emigration," says analyst Miles Lambert of USDA's Economic Research Service.

Hungary's decision to allow East Germans to cross its border paved way to permanent MFN grant.

The President granted the status without need for congressional action by declaring Hungary in compliance with the emigration provisions of the Trade Act of 1974. The act, in language referring to centrally planned economies, authorizes MFN status only if the recipient country demonstrates liberal emigration policies. The status is subject to annual Presidential review.

Countries holding MFN status enjoy lower tariffs on many of their exports to the United States. They also become eligible for access to U.S. Commodity Credit Corporation (CCC) and other government-backed credits. This helps U.S. agricultural exporters to expand or establish markets in those countries.

Hungary is one of the 97 nations belonging to the General Agreement on Tariffs and Trade (GATT), under which members ordinarily extend mutual MFN status automatically. But since the United States invokes a right to withhold MFN status to the centrally planned economy members, the emigration provisions of the Trade Act become the determining criteria in extending MFN to those countries.

Only Hungary, Poland, and Romania have been granted MFN under the Trade Act. Romania renounced that status in 1988, calling the emigration policy stipulation an interference in internal affairs.

The countries of Eastern Europe, including Hungary, bought $222.3 million more farm products than they sold to the United States in 1988. In 1987, Eastern Europe's agricultural trade deficit was $98.9 million. Lambert says Eastern Europe's hard-currency debt makes near-future increases in farm imports from the United States unlikely.

Economic reforms in Eastern Europe, however, might eventually result in more-attractive, better quality exports such as preserved fruits, vegetables, premium pork and poultry products, and wine, that could be sold to the United States with the MFN advantage. Such sales to the United States would enable some enterprises in the region to import more U.S. agricultural products, says the analyst.

Independent importers are already appearing in Hungary and Poland. Depending on how much buying power economic reforms bring, these importers could start purchasing some nontraditional products from the United States, such as raisins, nuts, and exotic fruits and juices, says Lambert.

But the uncertainty of year-to-year MFN status review makes countries wary of trading with the United States. Their exports would be placed at a disadvantage by cancellation of the status. Multiyear MFN status gives Hungarian food exporters incentive to meet U.S. quality standards and pursue commercial contacts, says Lambert, and U.S. partners feel more secure about dealing in Hungarian goods.

In May 1989, President Bush announced that he was prepared to consider MFN for the Soviet Union if it puts into law its recently liberalized emigration policy.

The Soviet Union's agricultural trade deficit amounted to $2.2 billion in 1988 and $916.2 million in 1987. Its total trade deficits were $2.3 billion in 1988 and $1.1 billion in 1987.

Lambert says that for the foreseeable future, the USSR is not likely to be able to upgrade the quality of its industrial products to increase its hard-currency sales to the United States, with or without MFN status. However, he says, were the USSR eligible for U.S. government-backed credits, it might buy more U.S. grain. The European Community (EC), which does not have credit restrictions similar to ours, offers the USSR long-term credit for grain purchases. □

[Based on information from analyst Miles Lambert of the Agriculture and Trade Analysis Division, Economic Research Service.]

A Bonus for Hungary

Hungary has received further trade preference from the United States. In November 1989, President Bush placed Hungary under this nation's Generalized System of Preferences (GSP). Congressional approval was not needed.

GSP is a preference beyond MFN which suspends tariffs on a list of specified goods. Any goods may be included that do not exceed specified dollar amounts and percentages of total U.S. imports of the items. Multiyear MFN for Hungary would mean multiyear GSP treatment as well.

GSP is accorded to countries that belong to GATT and the International Monetary Fund, have MFN status, have annual per capita income below a specified ceiling, and do not engage in terrorism or practices that would violate labor rights or intellectual property rights.

Top Farm Producers in 1988

(All figures in millions of $)

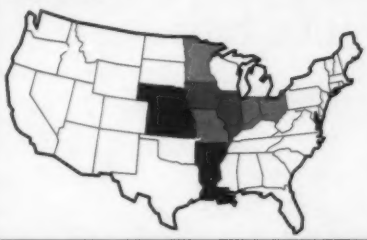
Cattle and calves

TX	
NE	$4,412
KS	$3,805
CO	$2,275
IA	$2,007
OK	$1,799
CA	$1,614
SD	$1,361
MN	
WI	
U.S. Total	$36,290

Dairy Products

WI	
CA	
NY	
PA	$1,344
MN	$1,194
TX	
MI	
OH	
WA	
IA	
U.S. Total	$17,668

Soybeans

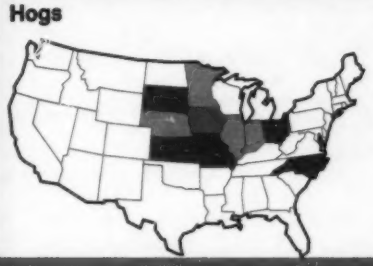


IA	
IL	
MN	$1,145
IN	$1,024
MO	$912
OH	$872
NE	
AR	
KS	
LA	
U.S. Total	$12,389

Corn

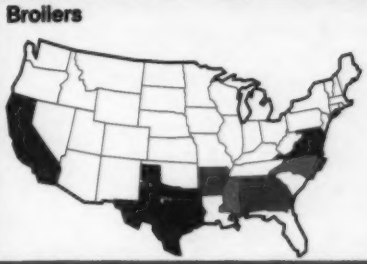
IL	
IA	
NE	$1,396
IN	$974
MN	$761
OH	$548
MO	
TX	
KS	
MI	
U.S. Total	$10,132

Hogs



IA	
IL	$1,024
MN	$750
IN	$717
NE	$670
MO	
NC	
OH	
SD	
KS	
U.S. Total	$9,214

Broilers

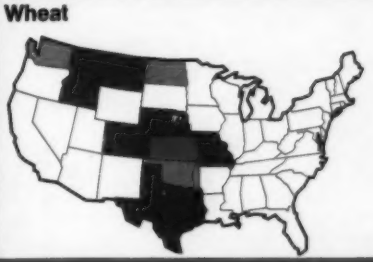


AR	
GA	
AL	
NC	$713
MS	$503
DE	
MD	
TX	
CA	
VA	
U.S. Total	$7,431

Greenhouse/Nursery

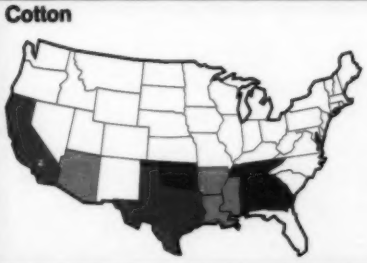
CA	
FL	$948
TX	$514
PA	
OR	
NY	
NJ	
NC	
MI	
OK	
U.S. Total	$6,938

Wheat



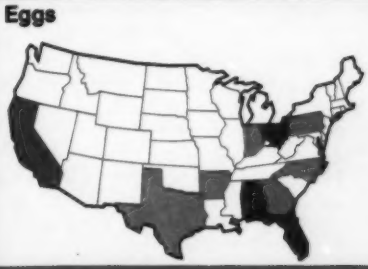
KS	
ND	$666
OK	$529
WA	$435
MT	
TX	
CO	
ID	
NE	
MO	
U.S. Total	$6,433

Cotton



TX	
CA	
MS	$540
AZ	$378
LA	$322
AR	$305
TN	
AL	
GA	
OK	
U.S. Total	$4,668

Eggs



CA	
GA	$230
AR	$227
IN	$204
NC	$190
PA	$186
TX	$182
AL	
OH	
FL	
U.S. Total	$3,059

Data provided by economist Bob Williams of USDA's Economic Research Service.

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Agricultural Trade Reform

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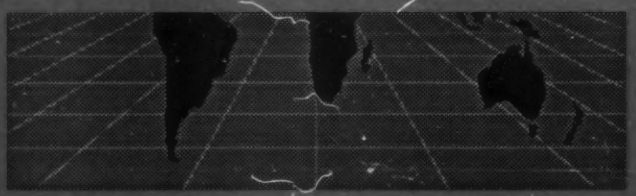

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